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Remarks:

*[Signature]*  
Executive Secretary

9/16/82

Date

NSC review completed.

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90731**MEMORANDUM****SECRET****NATIONAL SECURITY COUNCIL**

September 16, 1982

**LDX TO:****B****L. PAUL BREMER II**  
Executive Secretary  
Department of State**K-1****DAVID PICKFORD**  
Executive Secretary  
Department of the Treasury**D****LTC RICHARD HIGGINS**  
Assistant for Interagency Matters  
Office of the Secretary of Defense**-****STEPHEN SHIPLEY**  
Executive Assistant to the Secretary  
Department of the Interior**-****JEAN JONES**  
Director, Executive Secretariat  
Department of Commerce**H****WILLIAM V. VITALE**  
Director, Office of the Executive Secretariat  
Department of Energy**-****DR. ALTON KEEL**  
Associate Director for National Security and  
International Affairs  
Office of Management and Budget**A****THOMAS B. CORMACK**  
Executive Secretary  
Central Intelligence Agency**-****ROGER PORTER**  
Special Assistant to the President  
for Policy Development**-****BENJAMIN ZYCHER**  
Special Assistant to the Chairman  
Council of Economic Advisors**D****COL GEORGE A. JOULWAN**  
Executive Assistant to the Chairman  
Joint Chiefs of Staff**-****SHEILA DRYDEN**  
Special Assistant to the Director  
Federal Emergency Management Agency**SUBJECT:****Interim Policy Framework and Schedule of Studies for  
Final Stages of NSSD-9 (S)****SECRET**

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As announced at the August 23rd Overview Group meeting, I am circulating for final comment a draft memo from Judge Clark to the participating agencies, attaching an agreed Interim Policy Framework and Schedule of Studies for completing the final work of NSSD-9. This Policy Framework has been developed from the original "Defense in Depth" paper circulated at the August 23rd meeting, and from a revision of this paper discussed at a meeting of the Part III Working Group on September 2. The Policy Framework is designed to serve several purposes within the context of the NSSD-9 study: (1) to summarize broad policy principles and conclusions reached thus far in NSSD-9; (2) to direct further studies to be completed in the final stages of NSSD-9; and (3) to serve as outlines for writing up the results of Parts III and IV of the original NSSD-9 study outline. (S)

I would appreciate receiving your comments and clearance on the attached document by COB Monday, September 20, 1982. Since this document has been through considerable discussion, please limit your comments to essential points and to save time, transmit them by phone, if possible. (C)

*HAN*  
Henry R. Nau

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**THE WHITE HOUSE**

**WASHINGTON**

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**MEMORANDUM FOR THE VICE PRESIDENT**  
**THE SECRETARY OF STATE**  
**THE SECRETARY OF DEFENSE**  
**THE SECRETARY OF THE TREASURY**  
**THE SECRETARY OF COMMERCE**  
**THE SECRETARY OF THE INTERIOR**  
**THE SECRETARY OF ENERGY**  
**THE DIRECTOR OF THE OFFICE OF MANAGEMENT**  
**AND BUDGET**  
**THE DIRECTOR OF CENTRAL INTELLIGENCE**  
**THE ASSISTANT TO THE PRESIDENT FOR**  
**POLICY DEVELOPMENT**  
**THE CHAIRMAN OF THE COUNCIL ON**  
**ENVIRONMENTAL QUALITY**  
**THE CHAIRMAN OF THE JOINT CHIEFS OF STAFF**  
**THE DIRECTOR OF THE FEDERAL EMERGENCY**  
**MANAGEMENT AGENCY**

**SUBJECT: Interim Policy Framework and Schedule of**  
**Studies for Final Stages of NSSD-9 (S)**

The work on NSSD-9, Comprehensive U.S. Energy Security Policy, is approaching its final stages. Thus far, the study has developed a common, interagency analytical base of energy (especially oil) supply and demand projections for this decade (and out to the year 2000), and the potential U.S. and free world energy dependence and vulnerability that these projections imply. This work examines a range of possible disruptions to U.S. and allied energy supplies in the given time-frame and the effects of these disruptions on the U.S. and world economies. (S)

In its current work, the study is dealing with basic U.S. policy responses to mitigate the effects of various energy disruptions based on projections developed in the earlier work. The participating agencies have reached consensus on a comprehensive policy framework and schedule of studies for further development of U.S. emergency energy preparedness policies. The attachment to this memo sets out the agreed approach and identifies existing policies and new policy directions and development to

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strengthen further U.S. energy emergency preparedness. In the case of new policies, it directs additional studies to be completed over the next six (6) weeks leading to the conclusion of NSSD-9. These studies develop the analytical and procedural aspects of U.S. policy responses to various types of emergencies without locking the U.S. government into any preconceived responses before a crisis. They will establish a solid base from which further work can be conducted by the agencies after the conclusion of NSSD-9. (S)

**FOR THE PRESIDENT:****William P. Clark****SECRET****DRAFT**

SECRET**SECRET****DRAFT**U.S. Energy Security Policy: Interim  
Policy Framework and Schedule of Studies

U.S. energy security policy rests on three fundamental principles:

- Primary reliance on the domestic and international marketplace both before and, to the extent possible, during an emergency. (C)
- Willingness to intervene, if necessary, to enhance energy supplies in an emergency. (C)
- Provision of energy supplies for defense and broader national security purposes under any conditions. (C)

In implementing these principles, the Administration has established a set of existing policies and further policy directions:

- To improve the functioning of the domestic and international marketplace before a crisis. (C)
- To affect supply side factors in an emergency without controlling price, supply or demand. (C)
- To ensure that the U.S. government and its allies can acquire the necessary fuel supplies to meet Western defense requirements under all circumstances. (C)

I. Improving the Functioning of the Marketplace Before a Crisis

A. Existing Policies

1. Decontrol of oil prices and more general deregulation of energy markets. (U)
2. No standby price control and allocation plans which distort incentives in the private market to insure against emergencies. (The one exception here is the IEA emergency sharing plan, which we will not challenge, but seek gradually over time to modify toward greater use of markets.) (C)

B. Further Policy Directions and Studies

1. Continuing consideration of domestic measures (gas deregulation, Alaskan oil exports, coal slurry pipelines, etc.) to deregulate U.S. energy markets. (C)

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2. Studies to understand and remove obstacles to development of efficient future markets as a means of making available insurance against oil price increases in a crisis. (C)
3. Further investigation and elimination of disincentives to private stockpiling before a crisis. (C)
4. New or intensified international initiatives:
  - a. To encourage market pricing of energy in countries that continue to control prices and those that are inclined to do so in crises. (U)
  - b. To remove obstacles to economical development of Western energy sources as alternatives to Soviet energy imports. (C)
  - c. To monitor and, as possible, work against any developments in the international oil market that reduce flexibility which will be so critical in moving oil supplies around in a crisis. (C)

## II. Intervening to Increase Energy Supplies in a Crisis

### A. Existing Policies

1. Build-up of SPR (size studies, current fill rate policy, etc.). (U)
2. Existing SPR Plan and Distribution Plan (done by previous Administration). (U)
3. Facilitate operation of the marketplace in a crisis. (U)
4. Support for stockpiling activities of IEA. (C)
5. Rejection of sub-trigger plans in IEA to be put in place before a crisis. (C)

- B. Further Policy Directions and Studies -- Administration policy foresees use of five broad types of policy instruments to enhance supplies in an emergency; SPR drawdown, monetary and fiscal policy actions (macro and micro), surge production responses, international responses, and marketplace facilitating measures. To develop these responses, the following work will be carried on: (S)

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**1. SPR Drawdown Responses**

- a. For each class of disruption, consider SPR drawdown responses for the full range of cases in Part II D beginning with the bracket cases (e.g., at low end, low consumption scenario, high response capability, high production response from non-OPEC suppliers, and low probability of future disruptions, at high end, high consumption scenario, low response capability, low production response from non-OPEC suppliers and high probability of future disruptions). (S)
- b. Measure impact of SPR drawdown response on price effects caused by disruption as projected in Part II D. (S)
- c. Identify SPR drawdown responses that appear to be most effective in mitigating effects of disruptions under given assumptions. (S)

**2. Monetary and Fiscal Policy Responses**

- a. Preliminary projections based on Tatum model of macroeconomic effects of disruptions for all disruption scenarios considered in Part II D. (These results will be incorporated in Part II D.) (C)
- b. For each class of disruption, consider various aggregate fiscal and monetary policy responses for the full range of cases in Part II D, beginning with the bracket cases. (S)
- c. Identification of further refinements of Tatum model and experiments with other models (Hudson-Jurgenson) for projecting macroeconomic consequences -- possible outside studies to be commissioned after NSSD-9. (C)
- d. Consideration of circumstances under which micro fiscal policy responses (tax cuts, disruption tariffs, income transfers, etc.) might be appropriate to alleviate hardships in a crisis and how such policies would be most efficiently administered. (C)

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**SECRET****3. Surge Production Responses**

- a. In-depth evaluation of existing work on the following alternatives to determine technical and administrative feasibility; economic, environmental, health or other costs and effects; and oil supply potential: (C)
- Electric utility power wheeling. (U)
  - Utilization of excess natural gas deliverability. (U)
  - Potential increases in natural gas imports. (U)
  - Temporary production above MER for domestic oil and gas wells. (C)
  - Temporary relaxation of Clean Air Act sulphur and lead standards. (C)
  - Coal production and use enhancement. (U)
  - Remove impediments to flexibility in energy transportation system. (U)
  - Temporary nuclear power increases in power generation through changes to maintenance schedules and new plant start-up procedures. (C)
  - Potential increases in supply by eliminating impediments that may exist in many regulatory areas, such as the Fuel Use Act. (C)

The analysis of each alternative should cover the following areas:

- Technical, legal and administrative feasibility of the alternative. (C)
- Main problems and impediments to the alternative. (C)
- Economic costs and any environmental, health or other significant costs or effects. (C)
- Oil supply enhancement or substitution potential. (C)

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- Include only the potential over and above what the market is expected to produce under current policies. (C)
  - Distinguish between longer-term effects (e.g., that might result from accelerated licensing of nuclear plants) and temporary short-run supply or substitution effects (e.g., resulting from improved power wheeling). (C)
  - Time schedule in which the potential could be realized? (C)
  - Cost per barrel, in present value terms, to achieve the supply enhancement or substitution potential. (C)
  - Legislative changes required, if any. (C)
  - Identification of any further analysis required. (C)
- b. Identify further work to be continued after NSSD-9. (C)

#### 4. International Responses

- a. Identification and strategy for implementation of initiatives in IEA related to higher stock levels and informal, open-ended (i.e., no fixed plans agreed to before a crisis) discussions of how each IEA member may use its stocks under all types of circumstances. (S)
- b. Assessment of effects of emergencies on other countries and their responses. (S)
- c. Development of ideas to influence over time the IEA emergency sharing program in more market-oriented and supply-side directions, including possible modifications in the application of the allocation formula and consideration of measures such as alternative stock draw policies, and/or financial aid measures to cope with price increases without market controls. (S)

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**5. Marketplace Facilitating Measures**

- a. Evaluation of public information and liaison measures in an emergency. (C)
- b. Role in an emergency of National Defense Executive Reserve programs and other group activities, such as voluntary agreements, which may require legislative and/or regulatory actions now to assure their availability. (C)
- c. Development of self-help measures, such as buying cooperatives or use of future markets, for application by States and localities in energy emergency situations without Federal involvement. (C)

**III. Ensuring Defense Needs Under All Circumstances****A. Under normal pre-crisis market circumstances. (U)****1. Existing Policies**

- a. Relevant DOD procurement regulations currently in force. (U)

**2. Further Policy Directions and Studies**

- a. Review and remove obstacles to DOD's access to marketplace on same terms as commercial buyers. (C)

**B. Under energy emergency circumstances assuming no mobilization of defense forces or civilian economy: (S)****1. Meeting U.S. direct defense energy requirements from CONUS sources.****a. Existing Policies**

- More intensive procurement practices, e.g., resolicitations, waivers. (S)
- Jaw-boning in cooperation with DOE. (S)

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- Procedures for the use of the Defense Production Act to assure priority access of DOD to necessary energy requirements at market prevailing prices. (S)
- b. Further Policy Directions and Studies
- Identify and compose legislative and regulatory changes to Federal and DOD procurement rules/law to allow DOD to waive or modify certain provisions in order to more effectively deal in the marketplace. (S)
  - Identify legislative means to assure that anti-trust defense is provided for industry representatives participating in DOD energy emergency planning activities. (S)
- c. Identify further work that needs to be done.
- Complete interagency review and revision of existing DOE DPA procedures for direct DOD military and industrial base requirements. (S)
  - Identify appropriate USG fiscal and monetary policy schemes which may be associated with the fact that DOD will be paying market prices during energy disruptions. (S)
  - Consider the need to specify support plan and policy for SPR distribution to DOD under certain fuel crisis circumstances following Presidential release of crude oil from the SPR. (S)
  - Follow-up on enactment of the regulatory/legislative measures identified in b. above. (C)
2. Allied and friendly nation military supplies including U.S. acquisition overseas for U.S. military requirements. (S)
- a. Existing Policies
- Participation in NATO activities within the Civil Emergency Planning Committee structure. (S)

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- Bilateral discussions regarding assistance with fuel storage and stocks. (S)
- b. Further Policy Directions and Studies
- Qualitatively identify outstanding problems with capabilities of U.S. and allied military to meet requirements for fuel during peacetime oil disruptions. (S)
  - Commitment to continued active participation in NATO fora; particularly the Petroleum Planning Committee over the next fiscal year. (S)
  - Begin work on problems identified above. (S)
3. Economic and financial viability of key allies during energy disruptions so as to assure that coalition military strategies are not jeopardized. (S)
- a. Existing Policies
- Limited economic and security assistance. (S)
- b. Further Policy Directions and Studies
- Identify key countries and issues. (S)
  - Begin to analyze the extent to which the identified key countries have economic resiliency necessary to absorb large oil price increases and how this may affect their own or U.S. military readiness and sustainability. (S)
  - Identify fiscal and monetary measures which may be suitable for assisting those countries who have a problem (e.g., financial aid). (S)
  - Identify circumstances under which oil supplies may be provided to assist these countries. (S)
  - Analyze the extent to which allies may assist in supplying oil or providing financial/economic assistance. (S)

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- C. Under emergency circumstances assuming defense and related civilian economic mobilization to deal with a Middle East conflict where there are (i) no conflicts elsewhere in the world, and (ii) conflicts in Europe, Asia or both. (S)
1. Existing policies: DPA, NATO Wartime Oil Organization, Host Nation Support Commitments. (S)
  2. Further Policy Directions and Studies
    - a. Identify appropriate interagency fora for coordinating analysis of this class of issues. (S)
    - b. Produce list of minimum set of issues that should be addressed given knowledge acquired under NSSD-9 to include: (S)
      - DOD military requirements. Complete review of PWRMS strategy by theater. (S)
      - Assuring allied and friendly nation military requirements. (S)
      - Defense-related industrial/transportation requirements. (S)

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